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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND PROPERTY,
AND FOR ADJUSTMENTS TO ITS RATES
AND CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS WESTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

DOCKET NO. W-01445A-10-0517

**NOTICE OF FILING
TESTIMONY IN SUPPORT OF
SETTLEMENT**

Applicant, Arizona Water Company, hereby files the Testimony of William M. Garfield
and Joel M. Reiker in Support of Settlement in the above-captioned docket.

DATED this 21st day of February, 2012.

ARIZONA WATER COMPANY

By: R. W. Geake

Robert W. Geake
Vice President and General Counsel
ARIZONA WATER COMPANY
Post Office Box 29006
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and

Arizona Corporation Commission
DOCKETED

FEB 21 2012

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An original and fifteen (15) copies of the foregoing were delivered this 21st day of February, 2012 to:

Docketing Supervisor
Docket Control Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

A copy of the foregoing was mailed this 21st day of February, 2012 to:

Ms. Lyn A. Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
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Phoenix, Arizona 85007

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ARIZONA WATER COMPANY



Docket No. W-01445A-10-0517

2010 RATE HEARING

(AMENDED)

For Test Year Ending 12/31/10

PREPARED
TESTIMONY IN SUPPORT OF SETTLEMENT
OF
William M. Garfield

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ARIZONA WATER COMPANY

**Testimony in Support of Settlement of
William M. Garfield**

EXECUTIVE SUMMARY

William M. Garfield testifies that:

The Settlement Agreement is a fair and reasonable solution of this contested rate proceeding. A key settlement consideration for Arizona Water Company was promptly resolving the issues presented in order to allow the Commission to consider and act on the Settlement Agreement so that test year revenue requirements and the corresponding rates can be adopted at the earliest possible time. The settlement promotes water conservation, shelters ratepayers from significant off-site infrastructure facilities costs, provides just and reasonable rates and a rate design that enables residential ratepayers to manage utility costs through reductions in usage, and provides Arizona Water Company with operating revenues to maintain safe, reliable and adequate utility service to its customers. The settlement process was open, inclusive, and provided all Parties with the opportunity to voice concerns and collaborate to achieve results that benefit the ratepayers as well as the Parties.

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME, EMPLOYER AND OCCUPATION.

A. My name is William M. Garfield. I am employed by Arizona Water Company (the "Company") as President and Chief Operating Officer.

Q. ARE YOU THE SAME WILLIAM M. GARFIELD THAT PREVIOUSLY PROVIDED TESTIMONY IN THIS MATTER?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony at this stage of the proceeding is to support the proposed Settlement Agreement filed February 15, 2012. In supporting the proposed Settlement Agreement, I will discuss the settlement process, the settlement terms and the settlement benefits.

II. SETTLEMENT PROCESS

Q. PLEASE PROVIDE A SUMMARY OF THE PROCEEDINGS LEADING UP TO SETTLEMENT.

A. On May 9, 2011, the Company filed an amended application requesting adjustments to its rates and charges for utility service provided by its Western Group water systems, including its Pinal Valley (Casa Grande, Coolidge and Stanfield), Ajo and White Tank water systems. In its amended application, the Company requested an increase in revenues of \$4,564,110, or approximately 24.45 percent, over test year revenues. As recited in the Settlement Agreement, the requested increase in revenues had been adjusted to \$4,535,587 at the time the settlement discussions commenced. Testimony in this proceeding was filed by the Company, the Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO") and Abbott Laboratories ("Abbott"). The Water Utilities Association of Arizona ("WUAA") also intervened. Following submittal of Staff's testimony and rebuttal by Arizona Water Company, the Company contacted Staff and RUCO to explore

1 the possibility of settlement of some of the issues that appeared to be susceptible
2 to settlement based on the positions set forth in the testimony, or even an overall
3 settlement of all issues in the case. Based on the interest by these Parties in the
4 possibility of settlement, including an overall settlement, and after coordinating
5 logistics with the Parties, the Company gave formal notice to all Parties to the
6 proceeding and docketed a notice that a formal settlement conference would be
7 held at the offices of the Commission during the week of January 30, 2012.

8 **Q. WHICH PARTIES PARTICIPATED IN THE SETTLEMENT CONFERENCE?**

9 A. All Parties actively participated. Staff, RUCO, Abbott, the Company, and the
10 WUAA all participated in the settlement conference held at the Commission on
11 January 31, 2012. A second settlement meeting took place on February 2, 2012
12 at the Commission. Communications principally among key staff members of
13 Staff, RUCO and the Company continued outside the meetings to answer
14 questions and refine potential settlement parameters involving revenue, rate
15 design and other issues. All Parties were given an opportunity to participate in
16 both conferences and all settlement communications.

17 **Q. PLEASE DESCRIBE THE SETTLEMENT NEGOTIATIONS.**

18 A. All Parties to this proceeding had the opportunity to participate throughout the
19 negotiations and fully express their respective positions. There was a genuine
20 desire and a commitment on the part of all of the Parties to find common ground
21 on the issues. This commitment and the compromises that are inherently part of
22 any settlement effort produced results that are just and reasonable and provide
23 benefits for all Parties. An underlying theme of the settlement was the Parties'
24 desire to resolve all issues and execute an all-Party Settlement Agreement
25 covering all issues, so the case could be brought to a Recommended Opinion
26 and Order and a final Decision and Order of the Commission could be entered at
27 the earliest practicable time. The Parties recognized that doing so would save
28 considerable time, expense, and Commission resources.

1 Q. DID THE PARTIES TO THIS PROCEEDING REACH SETTLEMENT?

2 A. Yes, the Parties reached a settlement of all issues conceptually on February 2,
3 2012. As mentioned previously and in the supporting testimony of Joel M.
4 Reiker, further adjustments to the Schedules that are attached to the Settlement
5 Agreement followed through approximately February 6. Following the February 2
6 formal meeting, the Parties then worked collaboratively to draft the terms of
7 settlement which culminated in the proposed Settlement Agreement, signed by
8 all Parties, and filed in this docket on February 15, 2012.

9 Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

10 A. Yes. I am sponsoring the Settlement Agreement filed with Docket Control on
11 February 15, 2012 in this docket.

12 Q. ARE YOU SPONSORING ANY TESTIMONY IN THIS PROCEEDING?

13 A. Yes. I am sponsoring the direct and rebuttal testimony of Company witnesses
14 Joseph D. Harris, Fredrick K. Schneider, Joel M. Reiker, Thomas M. Zepp, as
15 well as my own testimony.

16 III. SETTLEMENT AGREEMENT TERMS

17 Q. WHAT ARE THE MAJOR TERMS OR PROVISIONS OF THE SETTLEMENT
18 AGREEMENT?

19 A. The following terms are contained in the proposed Settlement Agreement.

- 20 1. The capital structure is 49.03% long-term debt and 50.97% equity.
- 21 2. The cost of long-term debt is 6.82%.
- 22 3. The cost of common equity is 10.0%
- 23 4. The Weighted Average Cost of Capital is 8.44%.
- 24 5. The Company's annual revenues would increase by \$3,224,403 for an
25 annual revenue requirement of \$21,862,556.
- 26 6. The Fair Value Rate Base based on the Original Cost Less Depreciation
27 Rate Base is \$53,234,209.
- 28

1 7. New rates would become effective on the date specified in the
2 Commission decision on this matter.

3 8. All Parties to the Settlement would expeditiously take any and all steps
4 reasonably necessary to complete the Settlement Agreement and obtain
5 Commission approval of the material terms of the Settlement Agreement so that
6 the Commission may adopt and implement its provisions at the earliest possible
7 date, and fully support and defend all of the terms of the Settlement Agreement.

8 9. The Company's Stanfield water system would be fully consolidated with
9 the Company's Pinal Valley (Casa Grande and Coolidge) water system, while the
10 Company's White Tank and Ajo water systems would remain separate and
11 unconsolidated.

12 10. An Off-Site Facilities Fee tariff would be adopted.

13 11. The Arsenic Cost Recovery Mechanism would be continued.

14 12. The Central Arizona Project ("CAP") hook-up fee (renamed the "CAP M&I
15 Fees tariff") would be continued.

16 13. The Company's costs associated with implementing and performing
17 additional Best Management Practices for future recovery in a future general rate
18 case would be recorded and deferred.

19 14. The Company would be allowed to accrue an Allowance for Funds Used
20 During Construction for the Arizona City water storage tank and booster pump
21 station and site.

22 15. The Company's next Western Group general rate case filing, or for any
23 individual water system in the Western Group, would use a test year including at
24 least twelve months of recorded revenues with the rates approved in this
25 proceeding.

26 **Q. DOES ANY OTHER COMPANY WITNESS PROVIDE TESTIMONY**
27 **CONCERNING THE SETTLEMENT AGREEMENT?**
28

1 A. Yes. Company witness Joel M. Reiker provides testimony sponsoring the
2 schedules and exhibit to the Settlement Agreement.

3 **IV. SETTLEMENT AGREEMENT BENEFITS**

4 **Q. WHAT ARE THE BENEFITS OF THE SETTLEMENT AGREEMENT?**

5 A. The benefits of the Settlement Agreement are as follows:

- 6 • It avoids protracted litigation and yields significant savings of rate case
7 expenses, making lower customer rates possible.
- 8 • It establishes rate designs that promote water conservation and provides a
9 financial incentive and savings for customers who use less water.
- 10 • It produces lower rates to customers by adopting Staff's proposed return
11 on common equity of 10.0%, rather than the Company's requested return
12 on common equity of 12.1%.
- 13 • It postpones any rate application for any water system in the Western
14 Group until there is at least twelve months of recorded revenues with rates
15 approved in this proceeding, effectively postponing any new rate increase
16 for the Western Group for two years or longer.

17 **Q. WHY DID THE COMPANY AGREE TO SETTLE FOR A REVENUE INCREASE**
18 **THAT IS LESS THAN IT REQUESTED?**

19 A. The Company agreed to material reductions in its rate request primarily due to
20 the expense and uncertainty of protracted litigation, including potential appeals,
21 and to secure all Parties' commitment to expedite the Settlement Agreement,
22 bring it before the Commission for approval, and implementation of its provisions,
23 including new rates, at the earliest possible date.

24 The Settlement Agreement also provides greater clarity of the issues to
25 the Administrative Law Judge ("ALJ"), essentially focusing on the critical issues
26 in the case, in an effort to streamline and accelerate the process of drafting a
27 Recommended Opinion and Order. In my experience, general rate cases may
28 address many issues, some of which may be more or less critical than others.

1 The Settlement Agreement focuses on what the Parties agree are the most
2 critical issues in the case for the ALJ to consider in a clear, concise and
3 expedient manner.

4 **Q. DOES THE COMPANY BELIEVE THE COMMISSION'S ADOPTION OF THE**
5 **SETTLEMENT AGREEMENT STRIKES A FAIR BALANCE OF INTERESTS**
6 **BETWEEN THE COMPANY AND THE RATEPAYERS?**

7 A. Yes it does, and the Company is asking the Commission to approve the
8 Settlement Agreement as written. The Agreement and the detailed Schedules
9 and Exhibit attached are the result of vigorous, open and good faith negotiations
10 among all of the Parties, each of whom actively contributed to its terms.
11 Moreover, no one term or provision may stand alone, out of context with other
12 provisions; issues such as revenue requirements, return on equity, Fair Value
13 Rate Base, rate design and consolidation were all delicately balanced among the
14 Parties' competing interests in a carefully constructed, unified compromise.
15 Adjustment to any one of these terms by necessity would undermine
16 compromises reached on other terms and would undermine the goals the Parties
17 established and reached in the overall process.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF**
19 **SETTLEMENT?**

20 A. Yes.
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ARIZONA WATER COMPANY



Docket No. W-01445A-10-0517

**2010 RATE HEARING
(AMENDED)
For Test Year Ending 12/31/10**

**PREPARED
TESTIMONY IN SUPPORT OF SETTLEMENT
OF
Joel M. Reiker**

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1 **ARIZONA WATER COMPANY**

2
3 **Testimony of**
4 **Joel M. Reiker**

5 **I. Introduction**

6 **Q. PLEASE STATE YOUR NAME, EMPLOYER AND TITLE.**

7 A. My name is Joel M. Reiker. I am employed by Arizona Water Company (the
8 "Company") as Vice President – Rates and Revenues.

9 **Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED**
10 **DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to support the Settlement Schedules, including
14 their appendices, and Exhibit 1 attached to the Settlement Agreement
15 ("Agreement") between the Company, the Arizona Corporation Commission
16 Utilities Division ("Staff"), the Residential Utility Consumer Office ("RUCO"),
17 Abbott Laboratories and the Water Utility Association of Arizona (collectively
18 referred to as the "Parties") filed on February 15, 2012.

19 **II. Settlement Schedules**

20 **Q. WHAT SCHEDULES ARE ATTACHED TO THE AGREEMENT?**

21 A. The Settlement Schedules consist of the following standard rate case filing
22 schedules required by the Commission for Class A utilities pursuant to Arizona
23 Administrative Code R14-2-103.B:

24 A-1 Computation of Increase in Gross Revenue Requirement

25 B-1 Summary of Original Cost Rate Base

26 B-2 Original Cost Rate Base Pro Forma Adjustments

27 B-2 Appendix Detail of Original Cost Rate Base Pro Forma Adjustments

28 B-5 Computation of Working Capital

1	B-5 Appendix	Computation of Working Cash Requirement
2	C-1	Adjusted Test Year Income Statement
3	C-2	Income Statement Pro Forma Adjustments
4	C-2 Appendix	Detail of Income Statement Pro Forma Adjustments
5	C-3	Computation of Gross Revenue Conversion Factor
6	D-1	Summary Cost of Capital
7	H-1	Summary of Revenues by Customer Classification
8	H-2	Detail Analysis of Revenues by Class
9	H-3	Changes in Representative Rate Schedules
10	H-4	Typical Bill Analysis

These standard filing schedules reflect the settlement position of the Parties regarding the Company's revenue requirement and the specific rates and charges designed to produce such revenue. Where appropriate, the Schedules provide the Company's original position, as set forth in its application, and the specific adjustments applied to arrive at the Parties' settlement position. The Schedules were adjusted several times during the course of the negotiation meetings on January 31 and February 2, 2012, and even thereafter, as all of the Parties continued negotiations and final adjustments into what became the unified, agreed-upon set of Schedules that are attached to the February 15, 2012 Settlement Agreement.

Q. WHY WAS IT NECESSARY FOR THE PARTIES TO AGREE UPON AND ATTACH THE ABOVE SCHEDULES TO THE AGREEMENT?

A. Aside from the requirement to establish the fair value rate base and overall rate of return, the Parties agreed that it would be appropriate to establish settlement positions on all other ratemaking components such as adjustments to rate base, operating expenses, and taxes. The most efficient way of detailing the Parties' settlement position is to present it in a format that is familiar to the Commission. This approach provides an added benefit to Staff and RUCO in the next Western

1 Group rate case, as there will be a record of the individual plant account
2 balances reflected in the base rates approved in this proceeding.

3 **Q. HAS THE COMPANY PREPARED AND ATTACHED REVISED TARIFF**
4 **SHEETS REFLECTING THE RATES AND CHARGES SET FORTH IN THE**
5 **AGREEMENT?**

6 A. No. Tariff sheets are typically prepared by the utility and filed in the docket only
7 after the Commission issues an order approving new rates. Accordingly, the
8 Company will promptly file revised tariffs reflecting the rates approved by the
9 Commission after an order is issued in this proceeding. As stated above, the
10 Parties' proposed rates and charges are set forth in Schedule H-3 to the
11 Agreement.

12 **III. Exhibit 1**

13 **Q. WHAT IS EXHIBIT 1 TO THE AGREEMENT?**

14 A. Exhibit 1 to the Agreement is the tariff schedule for the Off-Site Facilities Fee. As
15 detailed in Section 7.1 of the Agreement, the Parties agree that an off-site
16 facilities fee is appropriate for the Pinal Valley (including Stanfield) system. The
17 purpose of this fee is to more appropriately assign the costs of constructing
18 additional off-site facilities necessary to provide water production, treatment,
19 delivery, storage and pressure to new customers whose incremental demand
20 makes these additional facilities necessary. These additional facilities include,
21 but are not limited to, a surface water treatment plant intended to treat water
22 received from the Central Arizona Project. Specific language in this tariff
23 schedule was negotiated by the Parties and all Parties have agreed to its terms
24 as set forth in Exhibit 1.

25 **Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
26 **AGREEMENT?**

27 A. Yes.
28